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Report

drawn up on behalf of the Temporary Special Committee on European Economic Recovery

on the 'PLAN FOR EUROPEAN ECONOMIC RECOVERY'

PART B: EXPLANATORY STATEMENT

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INTRODUCTION : ORIGINS OF PARLIAMENT'S INITIATIVE

The draft resolution and action plan drawn up by the Special and Temporary Committee on European Economic Recovery is the result of several months of work, involving several Parliamentary Committees and benefiting from the assistance of outside experts, most notably Messrs ALBERT and BALL.

On 30 September 1982 the enlarged Bureau asked five committee chairmen to draw up a proposal for preparing a report on European Economic Recovery, following an initiative taken by Sir Fred CATHERWOOD, chairman of the Committee on External Economic Relations.This decision of the Bureau was presented to the plenary session on 12 October 1982.

The group of committee chairmen, know as the Economic Recovery Group, was enlarged and chaired by Vice-Président NIKOLAOU and was composed of :

Sir Fred CATHERWOOD, Chairman of the Committee on External Economic Relations, Mr Jacques MOREAU, Chairman of the Committee on Economic and Monetary Affairs, Mrs Hanna WALZ, Chairman of the Committee on Energy and Research, Mr Pancrazio DE PASQUALE, Chairman of the Committee on Regional Policy and Regional Planning, Mr Michel PONIATOWSKI, Chairman of the Committee on Development and Cooperation and Mr Efstratios PAPAEFSTRATIOU, Chairman of the Committee on Social Affairs and Employment.

On 12 January 1983 the Group decided to appoint Mr Michel ALBERT, former "Commissaire au plan" and Professor James BALL, Director of the London Business School to draft a report. The Group also asked Dr Johannes WITTEVEEN, Professor Luigi SPAVENTA and Dr Ulf LANTZKE to contribute on specific points (monetary affairs, regional policy and energy respectively). The experts consulted widely with ministers, central bank officials, economic and monetary experts, officials in the Member States and officials of international organisations. The report, signed by Messrs ALBERT/BALL, was finalised on 30 June 1983 and presented to Parliament and the press during the July part-session in Strasbourg.

The recovery plan of the Special Committee

On 6 July 1983 the Bureau decided to submit to plenary, in accordance with Rule 91, a motion for a resolution to create a temporary special committee of 39 members, including members of the six committees concerned, with a bureau composed of the six committee chairmen, charged with drafting a report on European economic revival. It was amended in order to allow the inclusion of members of the Committee on Agriculture, making a total of 42 members, and adopted on 15 September 1983.

The committee held its constituent meeting on 26 October 1983. It elected Mr MOREAU as chairman, Mr DELEAU as vice-chairman and Mr HERMAN as rapporteur.

The committee organised hearings on the ALBERT-BALL report and on other proposals for economic recovery with Mr THORN, President of the Commission; Mr ORTOLI and Mr DAVIGNON, Vice-Presidents of the Commission; Mr ALBERT; Mr DREW, assistant to Mr BALL; Mr CEYRAC, President of the Economic and Social Committee; Professor WITTEVEEN, former Director of the IMF; Mr CARLI, President of UNICE; Mr DEBUNNE, President of ETUC; Mr DELORS, President-in-Office of the Council; Mr LE PORTZ, President of the European Investment Bank; Messrs HENDERSON and HIGGINS, OECD; Mr LANTZKE, International Energy Agency and Mr Pierre URI.

On the basis of these hearings and the detailed discussions on the working documents and draft report presented by the rapporteur, the committee adopted the draft resolution and recovery plan on 1 March 1984.

A. OBSERVATIONS ON THE ALBERT/BALL DIAGNOSIS OF THE PRESENT CRISIS

1. Any solution to the problems currently facing the Community must be based on an accurate diagnosis of the cause of the relative decline of the Community vis-a-vis the other industrialized countries of the world. Agreement on the diagnosis ought to lead to agreement on the cure. On the latter, however, Mr Albert and Professor Ball are not entirely at one.

2. Although the ideas put forward by Mr Albert have an attractive air of brilliance and lucidity, it is generally felt that they are meant to be illustrative rather than comprehensive. Without claiming to present an in-depth analysis of the problems - it would take volumes - our committee has nonetheless endeavoured to broaden the scope of the survey by briefly assessing the outcome of the economic policies pursued in a number of industrialized countries outside the Community and by questioning a dozen or so experts on most of the points at issue.

3. The main themes of the Albert/Ball diagnosis may be summarized as follows:
   (a) Europe has sacrificed the future to the present by choosing to consume rather than invest. Despite zero growth, the fruits of growth have continued to be distributed. Real wages have increased faster than productivity, with the result that company profits and, consequently, investment have suffered. This has been exacerbated by the fact that fiscal and parafiscal charges, on top of wages, are the highest in the world and have for ten years been rising more rapidly than anywhere else.

   Furthermore, public investment expenditure has been cut back in favour of consumption and social welfare expenditure, which has continued to increase twice as fast as overall wealth. In 1982, public authority expenditure amounted to 50.8% of Community GDP, as opposed to 35% in the USA and 34.8% in Japan.

(b) The reaction of the Community Member States to this crisis has been one of 'every man for himself'. Instead of trying to work together to find collective 'European' solutions to the problems, the governments have preferred to adopt a competitive rather than a cooperative stance, so that numerous meetings are spent in acrimonious negotiations over relatively insignificant sums of money (it must be remembered that the total Community budget is less than 1% of Community GDP and less than 2% of the sum of national public expenditure), leaving no time or even willingness to consider the wider issue of cooperating to compete efficiently on the world market and pull us out of the recession.

(c) It is not possible for any Member State to 'go it alone' and attempt to pursue an isolated reflationary policy whilst its partners are either deflating or adopting a 'wait and see' approach. The economies of the Community are undeniably interlinked and any action must therefore be a common action. Up to now, there has been no joint response to the crisis. Such common policies as have been adopted have been piecemeal and insignificant.

(d) Hence, the outlook for the immediate future is not encouraging. The problem of unemployment will become even more acute and the divergencies between the economies of the Member States will become more marked. In order to be able to benefit from membership of a strong Community, each country must first put its own house in order by controlling inflation and public sector finances.

4. There have been no serious differences of opinion within our committee on the above diagnosis. Moreover, with the exception of Mr Debunne, none of the experts heard took issue with the Albert/Ball analysis, at least as far as its diagnostic section is concerned.

5. Even so, there were differences of emphasis. Some experts felt that inflation and monetary instability were chiefly to blame for the crisis. Others singled out the loss of ground in technological development and the compartmentalization of the markets. Others again attached particular

importance to the lower return on investment consequent upon the escalation of wage costs, heavier taxation and the expansion of social welfare provisions. There was, however, unanimity on two points: insufficient investment and an insufficient European 'presence'.

6. Three problems are scarcely touched upon in the 'diagnosis' and deserve to be looked at a little more fully:

(a) The international environment

7. The European economy is more susceptible to external influences than either the American or the Japanese economy. Consequently, events in the rest of the world have a more pronounced impact on growth and employment rates in Europe than anywhere else. Monetary instability, the indebtedness of the Third World, high interest rates and increases in the prices of oil and raw materials all tend to obstruct productive activity or to blunt the impact of the economic policies pursued.

8. Although Europe's political power and influence on the international scene are incommensurate with its economic importance, by strengthening political cooperation between the Member States it could do more, with Japan and the United States, to coordinate budgetary, monetary and trade policies with a view to achieving greater stability and predictability.

9. This is why our committee believed it necessary to include an entire chapter on international cooperation in its recovery plan.

(b) Demographic pressures and labour force behaviour must also be taken into consideration

10. The rapid rate of increase in the working population - far more rapid than the expansion of the population as a whole - has been and will continue to be a major influence on the level of unemployment. Each year, about a million extra jobs would have to be created to maintain employment at existing levels.

11. Two factors can be identified as being the most important influences on labour inflow: the baby-boom effect and female labour force participation. The behaviour of inflows into working age population represents of course only half the story. The total demographic impact on labour markets will be the combined effect of inflows and outflows.

12. Table 1 shows for the ten Community countries the potential working population and the particularly problematical 'youth' population up to 1995. It can be seen that in all countries the population of working age will increase up to 1985. For the folloiwng five years the position is more diversified but in three of the four largest Member States (France, Italy and the United Kingdom) the potential workforce will continue to increase. In the period 1990-1995, the potential working population shows a decline in all countries except Ireland and Denmark. For the 'youth' population, the recent decline in the birth rate will be felt in all countries, except Ireland, by 1990.

13. While it is relatively easy to be assertive about the size of demographic pressures during the decade ahead (aside from migratory movements), it is much more difficult to forecast labour force behaviour. Future school enrolment is uncertain, partly because there may be a growing trend to combine schooling with gainful work. Future retirement trends are also difficult to predict owing to the effects of voluntary or compulsory early retirement schemes. But even more unpredictable appears to be the future labour force participation of women. If anything, it must be assumed that past trends of rising female labour force participation will continue. In fact, during a recent OECD High Level Conference on the Role of Women in the Economy, OECD governments agreed to seek to improve the employment chances of women regardless of prevailing labour market conditions.

14. Table 2 shows the results for 6 Community countries for which national forecasts of labour force growth are available. A deceleration of labour force growth in the late 1980s will occur in most countries but labour force participation is still expected to exert a positive influence on labour force growth. By far the most important contribution to future labour force growth will be, as in the past, the rise in working age population. Nevertheless, for the OECD area as a whole, no dramatic reduction of supply side pressure on the labour market is to be expected in the 1980s. The future development of individual working time will also be relevant to unemployment. In fact, the forecast relative strong growth of the labour force may be misleading in the sense that many newcomers to the labour market will be looking for less than full-time or less than full-year-round jobs. However,

Table 1

Demographic Trends in the Community

Projections of the potential working population and the "youth" population

	D	F	I	NL	B	L	UK	IRL	DK	GR
% population aged 15-64										
1980	66.3	64.0	64.7	66.4	65.6	68.0	64.3	57.9	64.8	63.9
1985	70.6	66.6	66.8	68.7	67.9	69.9	66.4	58.5	66.0	64.9
1990	70.3	67.0	67.3	69.2	67.6	69.7	66.9	60.6	66.7	64.7
1995	68.9	66.5	66.4	68.6	66.9	68.5	66.5	62.3	67.0	63.3
% population aged 15-24										
1980	15.5	15.9	15.2	17.2	16.0	15.1	15.8	17.2	15.0	15.1
1985	16.5	15.5	15.6	17.1	15.4	14.3	16.6	17.6	15.2	15.2
1990	14.0	15.0	15.0	15.4	14.0	12.7	15.3	18.6	14.6	14.6
1995	10.8	13.8	13.3	12.8	12.6	11.3	13.0	18.2	13.2	13.4

Source: Demographic Indicators of Countries: Estimates and projections as assessed in 1980. United Nations 1982 no reliable forecast of the working time dimension of labour supply is available. Part-time jobs for married women, for instance, may be a significant development in some countries, but in others there is evidence that with rising educational attainments women are increasingly seeking full-time jobs. Individual working time is one of the crucial variables which may be affected by policy to balance future labour markets.

Table 2

Labour force growth in selected Community countries

Average annual rates of growth

	Historical data	Projections	
	1970-1980	1980-1985	1985-1990
Belgium	1.0	0.6	0.2
Denmark	0.8	0.7	0.7
France	0.8	1.0	0.6
Germany	0.0	0.3	0.0
Netherlands	0.9	1.2	1.1
United Kingdom	0.5	0.7	:

Sources: Labour Force Statistics, OECD, Paris; Demographic Trends 1950-1990, OECD, Paris, 1979; and national participation rate projections

15. It should be pointed out that the above country projections were calculated by the OECD in 1979. More recently (June 1983) the European Commission has attempted to project the global Community participation rate and the consequent unemployment rate in the coming decade. Its latest forecasts predict a reduction in the participation rate from 66.4% of the population of working age in 1982 to 65.5% in 1984, the lowest rate ever registered since 1953. This will fall further to 65.1% in 1985, followed by a small progressive increase of about 0.1% per year from 1986 to 1990, when the 1984 level will be reached again.

The above projections, taken together with the current economic forecasts, imply that unemployment will fall by 1990 to 10.6% of the working population, against a predicted 11.3% for 1984.

Even in the unlikely event that productivity and employment trends returned, from 1985 onwards, to those of 1953-1962 (productivity growth of 4.4% p.a. and employment growth of 0.6% p.a.), together with a stabilization of the participation rate at 65%, there would still be an unemployment rate of 8.2% in 1990[1].

[1] See PE 87.925, pages 9 to 11

16. In the light of the foregoing, one conclusion is inescapable: the measures adopted or to be adopted to cut back the supply of manpower and relieve the strain on the labour market have to be reversible. After 1990, and particularly after 1995, demographic trends will change direction and influence the labour market in such a way that the supply of labour could once again be instrumental in curbing growth.

(c) The level of wage costs

17. Mr Albert and Mr Ball assert that the high level of wage costs and, above all, resistance to cuts in wage costs have been clearly instrumental in increasing unemployment.

18. Not surprisingly, the trade union organizations dispute this assertion. Moreover, it was apparent from the discussion of solutions within our committee that, although they had no quarrel with the Albert/Ball diagnosis as a whole, several members had doubts about the Commission's proposals on wage restraint.

19. Many statistical data have been used to support the arguments of those who disagree on this issue.

20. It is necessary here to clear up the confusion which frequently arises when economists come to assess the relationship between wage costs, employment and productivity.

21. Most of the statistics provided by the Commission are based on the concept of unit labour costs. If, however, the purpose is to assess the impact of labour costs on employment, the concept is misleading.

22. As the rise in wage costs prompts undertakings to rationalize, or forces the closure of marginal undertakings through bankruptcy, the productivity of the labour factor, measured by sector, tends to improve. Unit labour costs do not rise, and they may even fall, each time there is an increase in the level of unemployment. Using sector productivity as the accepted yardstick for increasing wage costs could, if the argument was taken to its extreme, utlimately justify wage increases which would force all the undertakings of a given sector out of business, except for the most efficient.

23. The method used by Mr Albert and Mr Ball, which consists of measuring the discrepancy between the growth of per capita real wages and the growth of GDP in volume per person employed, is certainly more acceptable.

24. This method is illustrated by the following table:

Discrepancy between per capita real wages and per capita real GDP	European Community	USA	Japan
Average 1961-1970	100	100	100
1973	106.4	103.3	100.7
1975	114	106.5	107.2
1978	112	105.4	104.2
1980	113	106.8	98.7
1983	116.8	109.2	97.9

25. The flexibility which has permitted a downward movement of real wage costs in the USA, Japan, Austria and Switzerland and the contrasting rigidity which has prevailed in Belgium, France and Italy would seem to lend credence to Albert and Ball's arguments.

26. It is also striking that the rise in unemployment has been arrested in almost all countries in which it has been possible to freeze or reduce real wage costs first. No one would dispute that many other factors have a bearing on the explanation of unemployment. Just as lack of competitiveness may equally result from draconian fiscal measures, a total loss of entrepreneurial drive or weak financial structures, so a rise in unemployment may also result from a change in the working population or a lack of occupational or geographical mobility.

27. It seems certain that increases in real wages in Europe since 1973 have encouraged entrepreneurs to invest in more capital intensive production methods thereby increasing productivity while permanently destroying jobs. In the US, on the other hand, in six of the last ten years real wages have actually fallen in response to market pressures so that the incentive for US entrepreneurs to replace labour with capital has been considerably less. The availability of an ever-growing labour force in the United States, combined with less restrictive labour legislation and less attractive social security benefits than exist in Europe, has created a flexible labour market in which even nominal wages can move downwards in response to market conditions. Such a situation has also encouraged the development of a large and growing service sector (66% of employment as against 55% in the Community) based on the employment of unskilled labour at relatively low wages.

The net effect of these structural differences in the labour markets of the Community and the United States has been that since 1973 the US has created 20 million <u>new</u> jobs while in Europe there are 3 million <u>fewer</u> jobs than ten years ago.

B. THE LESSONS TO BE LEARNED FROM THIRD COUNTRIES

28. All the countries of the world, and the industrialized countries in particular, have been affected by the collapse of the international monetary system set up at Bretton Woods and by the two consecutive oil shocks.

29. Although the degree of openness, and hence vulnerability to external pressures, varies from one country to another, and although political situations and economic structures are rarely comparable from one continent to another, the committee found it instructive to study the broad lines of the adjustment strategies pursued by governments and the results achieved, especially in terms of growth and employment.

30. In the interests of brevity, we limited the scope of this study to those countries which have achieved, or appear to have achieved, above-average employment levels. These are:

- Switzerland
- Sweden
- Austria
- Japan
- the USA
- Taiwan
- South Korea

Switzerland

The economic policy of Switzerland during recent years has shown a remarkable degree of adaptability and constancy in following certain basic aims.

1. Monetary policy aims at keeping inflation low and reducing as far as possible exchange rate fluctuations by observing a monetarist rule for money expansion. Monetary policy was restrictive in 1980-1981 and was relaxed in 1982, resulting in lower interest rates to a greater extent that was occuring internationally.

2. Budgetary policy aims at medium-term equilibrium of the finances of the Confederation. Budget deficits were reduced strongly by 1982, permitting a cautious expansionary fiscal policy in 1983 (increase of public spending of about 0.8% of GNP).

   Decreased external demand and an appreciation of the exchange rate due to low inflation resulted in a fall of exports in 1982 and 1983.

   Switzerland's economic success until today can be attributed to the following factors: Fiscal (budgetary) and monetary policies have been characterised by a great degree of stability, and the control of inflation has been pursued steadily and permanently, due in great part to the high degree of autonomy and the prestige of the Swiss National Bank. This creates a favourable economic climate and generates favourable expectations on economic prospects, that center around future prospective stability. This again makes the efforts of the government towards stability easier to attain. Switzerland seems to be a classic case of positive "self fulfilling prophecies" and a virtuous economic cycle.

   Switzerland has been able also to adapt quite fast to the new economic situation. The government has promoted measures of adaptation but did not try to substitute for private initiative. Swiss products remained relatively competitive, although the SF appreciated considerably.

This is due to the special climate existing in the Swiss labour market that is characterised by moderate demands from the trade unions and the labour force in general, as well as an important margin of manoeuver due to the existence of foreign workers. Wage demands and settlements were moderate, so that one could speak of the existence of voluntary incomes policy, while productivity growth remained relatively high, so that Swiss products remained in many cases competitive even taking into account the appreciation of the SF.

Unemployment remained low also due to measures to reduce the foreign working force in Switzerland.

Adaptation was further facilitated by the incentives given to encourage industrial redeployment to more capital and higher technology sectors, as well as incentives to encourage research and professional training.[1]

Sweden

The Swedish economy is also an open economy where exports and imports play a significant part in GNP and consumption, the export share in output reaching 28.7% for the period 1977-79. The public sector's revenue share in GDP had increased to 50.8% during the same period and the average tax rate, which has doubled over the last twenty five years, was probably the highest in the world.

A high priority has always been attached to the full employment target. Swedish economic policy after the war combined this long-run aim with trying to control cyclical fluctuations by combining selective and general measures. Selectivity has also been a characteristic feature of monetary policy, as the authorities have attempted to influence not only the total volume of credits, but also its distribution. Though the openness of the economy has naturally affected the room for manoeuvre, balance of payments problems have only on a few occasions led to a change in the orientation of policies. Also, the Swedish authorities, unlike the other Scandinavian countries, have not applied incomes policies in a formal sense, although centralised bargaining and close cooperation between the government and the labour market parties have frequently produced results which in the other Scandinavian countries were achieved through more formal arrangements.

[1] The statistics noted here are taken from OECD's economic studies, Switzerland May 1983.

In Sweden changes in primary reserves and reserve requirements have been the principal instruments in regulating overall credit supply. Over time, interest rate variations have become more frequent, but various selective measures favouring priority sectors have also gained in importance.

During the period 1974-80 Sweden followed a policy of general demand stimulus, employment suppporting measures and selective policies in favour of weak industries. Labour market measures were most extensively used and by 1977-78 4 to 4.5% of the labour force was enrolled in public relief work and training schemes, with an additional 2 to 2.5% estimated to have been "under-employed" within the private sector. This resulted in relatively high growth rates and virtually full employment but also in a marked deterioration in international competitiveness, reflecting some acceleration in nominal wage increases, a sharp decline in productivity gains, and an effective appreciation of the exchange rate due to the "hard currency option" initially adopted by the authorities. Real wages moved in line with the virtually flat trend in real rational income and nominal wage increases were comparatively moderate. Nevertheless, since the moderation was partly due to compensatory income tax reductions, which, in turn, were financed by higher payroll taxes, wage costs rose considerably faster than earnings and the improvement in international competitiveness achievec during 1970-74 was quickly eliminated. When economic policy became more restrictive in 1977, output fell by 2.5% and due to a simultaneous depreciation and reductions in social charges and payroll taxes, the deterioraticn in competitiveness was sharply reversed. However, there have recently been indications of growing social unrest, pointing to suppressed inflationary pressures and the risk of a renewed widening of imbalances.

Swedish economic policy has met with mixed success. Unemployment was lower than in most industrialised countries, but this success resulted in heavy economic costs in other areas. As the OECD points out, structural disequilibria have appeared and increased recently in the Swedish economy. GDP growth increased more slowly in Sweden than in most OECD countries and in particular industrial production and productivity fell back in relation to the other OECD countries. The situation of public finance also deteriorated sharply and the external deficit, although not so important as in some other countries, is still a constraint. Swedish exports of industrial products increased much more slowly than the weighted average of the imports of the commercial partners of Sweden. This implies a serious loss of market share and of competitiveness of Swedish products.

The main reason for this loss of competitiveness and slow-down of growth seem to be the decrease of investment, as in most European countries. This is again due in great part (also according to the OECD) to a decrease of profitability of enterprises. The share of profits in value added of industry fell by 10% from the beginning of the 1960s to the end of the 1970s (1960 share: about 34%, 1980 about 23%, compared to Japan of 54% to 44%, West Germany 42% to 30%, Canada 34% to 36%, USA 26% to 24% for the same period. Except for the USA and Canada, where the profit share remained almost constant, profit shares fell in most OECD countries, but actual profit shares lie above the Swedish one). (1)

Austria

The main thrust of Austrian economic policy has been to limit unemployment and to rely on a hard currency policy plus price controls to restrain inflationary pressures. In this Austria was on the whole successful, achieving simultaneously a progressive reduction of inflation and a continued growth of employment. A necessary condition for the success of this policy mix has been the willingness of the two sides of industry to accept a gradual reduction in nominal wage claims and profit margins without having to be subjected to a prolonged period of slack.

The results achieved by Austria bear a favourable comparison with most OECD countries. Unemployment remains relatively low, although it has increased since 1979 and inflation has decreased, due in great part to a wage moderation as well as price stability. The current account is close to equilibrium due to a low propensity to import.

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(1) Sources: OECD, Economic Studies, Sweden, July 1982, OECD, Economic Outlook, No 33, July 1983, Palle Schelde Ancersen and Johny Akerholm "Scandinavia" in Andrea Boltho, ed. "The European Economy, Growth and Crisis", Oxford UP, 1982, John T. Addison, "Incomes Policy: The Recent European Experience", in J. L. Fallick, R. F. Elliott, "Incomes Policies, Inflation anc Relative Pay", George Allen and Unwin, London 1981. For a theoretical approach to the relation between employment, investment and profitability see Edmond Malinvaud "Wages and Unemployment", in Economic Journal, March 1982.

1. Fiscal Policy: Fiscal policy was restrictive until 1981 aiming at the reduction of public deficits but became more expansionary after 1981 with a view of reducing unemployment, while end of 1982 a programme to promote employment, including medium-term measures of structural adjustment, has been introduced.

2. Monetary Policy: The Austrian Central Bank is following a monetary regime not in monetary expansion but in targeting the exchange rate of the schilling. In fact, the schilling is closely following the DM, due to the importance of Germany as a commercial partner, as an export market and for tourism. Austrian interest rates also closely follow those in Germany in order to avoid an excessive capital outflow that would result in the case of significant interest rates differentials. Monetary developments (and monetary expansion) therefore closely followed the German pattern.

3. Incomes Policy: This instrument has been used constantly by Austrian economic policy and its importance has further increased due to rising unemployment. The objective is to follow wage developments in Germany, so that, in relation to the exchange rate targetting, the competitive position vis-à-vis Germany does not deteriorate. Moreover, taking into account that the Austrian inflation rate does not differ from the German one, it is clear that any difference in wages would affect profits. If wages were to rise faster than in Germany, either competitiveness would deteriorate, or profit margins would have to be compressed, which again would influence investement negatively.

4. Employment: The low unemployment rates observed during 1960-80 can be explained in part by favourable demographic developments. Active population growth during this period was 0.25% per year, as compared to an average of 1.25% for the OECD. Recently this trend has been reversed and active population growth will increase for the next 15 years, rising at about 0.75% p.a. until 1985. Unemployment could rise due to this, even if working hours are reduced, as was the case during the 1970s. But even if the reduction of working time could safeguard existing jobs it is doubtful it could increase total employment. Also, reduction of working time must be undertaken in such a way as not to worsen Austria's international competitive position. (1)

(1) See OECD, Economic Studies, Austria February 1983, OECD Economic Outlook No 33, July 1983